

**RESOLUTION FUND MANAGERS LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2007**

**COMPANY REGISTRATION NUMBER 85610**

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**RESOLUTION FUND MANAGERS LIMITED  
REPORT BY THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**PRINCIPAL ACTIVITY**

The principal activity of the Company is the management of Unit Trusts, Open Ended Investment Companies (OEICs), Personal Equity Plans (PEPs) and Individual Savings Accounts (ISAs) investing solely in unit trusts

*The Company is regulated by the Financial Services Authority*

**RESULTS FOR THE YEAR**

The audited financial statements together with relevant notes and independent auditors report are shown on pages 4 to 15

The profit for the year, after taxation, was £5,393,000 (2006 – profit £3,950,000) and the funds under management amounted to £14,859m at 31 December 2007 (31 December 2006 restated £14,539m)

A dividend of £5,400,000 was paid during the year (2006 £nil) There is a surplus of £8,393,000 (2006 £8,400,000) carried forward in reserves

The Directors approved on 19 February 2008 to pay a final dividend of £5,000,000 to Resolution Asset Management Limited

**FUTURE DEVELOPMENTS**

The Company seeks to build on the success of the past two years and will continue to build on its existing product range and look for opportunities to launch new funds

**DIRECTORS AND THEIR INTERESTS**

Directors	P Thompson	MA (Cantab) ACA, Chairman (resigned 7 March 2007)
	G Stewart	BSc FFA – Chief Executive Officer
	P Reid	MA ASIP Chief Investment Officer
	J Polin	Sales & Marketing Director
	D O'Neil	BSc FFA – Deputy Chairman
	I Paterson Brown	CA Chief Operating Officer
	M Biggs	MA (Oxon) ACA (appointed Chairman 7 March 2007)
	B Meehan	FCCA, FCII Chief Operating Officer of Resolution plc (appointed 5 May 2007)
	J Newman	BSc ACA – Finance Director of Resolution plc (appointed 5 May 2007)

**RESOLUTION FUND MANAGERS LIMITED  
REPORT BY THE DIRECTORS  
FOR THE YEAR ENDED 31 DECEMBER 2007 (CONT'D)**

**DIRECTORS AND THEIR INTERESTS (CONT'D)**

P Thompson (resigned 7 March 2007), M Biggs, B Meehan and J Newman are Directors of Resolution plc, and details of their interests are disclosed in the accounts of Resolution plc. No other Director held any beneficial interest in the share capital of the Company or any group Company.

**RISKS AND UNCERTAINTIES**

The main risk to the Company's financial performance is loss of unit holder investors and the impact that this would have on revenue. We constantly review our risk management process throughout the year to manage this risk accordingly. Risk management is discussed within the notes to the financial statements (note 10).

**POST BALANCE SHEET EVENT**

On 16 November 2007, the Board of Resolution plc (Resolution), the Company's ultimate parent company, announced that agreement had been reached on the terms of a recommended cash acquisition of Resolution by Impala Holdings Limited, a subsidiary of Pearl Group Limited.

As at the date of this report, the acquisition had not been completed.

**AUDITORS**


In the case of each of the persons who are directors of the Company at the date of approval of this report:

- So far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware, and
- Each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

A resolution for the reappointment of Ernst & Young as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

**BY ORDER OF THE BOARD**

  
**D A WAGNER**  
Secretary

Registered Office  
Resolution House  
50 Bothwell Street  
GLASGOW G2 6HR

27 March 2008

## **RESOLUTION FUND MANAGERS LIMITED CORPORATE GOVERNANCE**

The Company strives to comply as far as possible, given its position as a subsidiary, with corporate governance best practice. Following a group wide review of the Corporate Governance structure, a full committee structure in accordance with Combined Code requirements was adopted by the Company in May 2000 and is now in operation. In keeping with governance best practice an annual review is carried out by the Audit, Risk and Compliance Review Committee.

A detailed risk management framework in line with Turnbull Guidance is in place and operates effectively.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently ,
- make judgements and estimates that are reasonable and prudent ,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements ,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring appropriate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
RESOLUTION FUND MANAGERS LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2007**

We have audited the company's financial statements for the year ended 31 December 2007 which comprise the Profit & Loss Account, the Balance Sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the other opinions we have formed.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is consistent with the financial statements.

In addition we report to you, if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
RESOLUTION FUND MANAGERS LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**OPINION**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

*Ernst Young LLP*

Ernst & Young LLP  
Registered Auditor  
Edinburgh

27 March 2008

**RESOLUTION FUND MANAGERS LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
Turnover		26,111	21,767
Administrative expenses		<u>(19,409)</u>	<u>(16,698)</u>
Operating profit	2	6,702	5,069
Interest receivable		<u>1,171</u>	<u>647</u>
Profit on ordinary activities before taxation		7,873	5,716
Taxation	5	<u>(2,480)</u>	<u>(1,766)</u>
Profit for the financial year	12	<u><u>5,393</u></u>	<u><u>3,950</u></u>

**Recognised gains and losses**

The company has no recognised gains or losses for the current or prior year other than those detailed above

*The notes on pages 8 to 15 are an integral part of these financial statements*

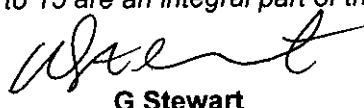
**RESOLUTION FUND MANAGERS LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**

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	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
<b>FIXED ASSETS</b>			
Intangible Assets	6	86	166
<b>CURRENT ASSETS</b>			
Stock of units/shares		617	549
Debtors	7	59,114	27,068
Deferred tax	8	26	37
Cash at bank		<u>31,239</u>	<u>15,673</u>
		90,996	43,327
<b>CREDITORS:</b>			
Amounts falling due within one year	9	<u>(80,861)</u>	<u>(33,265)</u>
Net current assets		<u>10,135</u>	<u>10,062</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>10,221</u>	<u>10,228</u>
<b>CAPITAL AND RESERVES:</b>			
Called up share capital	11	1,308	1,308
Share premium account	13	520	520
Profit and loss account	12	<u>8,393</u>	<u>8,400</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>	14	<u>10,221</u>	<u>10,228</u>

*The financial statements were approved by the Directors on 27 March 2008*

*The notes on pages 8 to 15 are an integral part of these financial statements*

  
**G Stewart**

**Director**



**RESOLUTION FUND MANAGERS LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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## **1. ACCOUNTING POLICIES**

### **1.1 Accounting convention**

The financial statements are prepared under the historical cost convention in compliance with the Companies Act 1985, and in accordance with applicable UK Accounting Standards

### **1.2 Turnover**

Turnover represents the net income accruing to the company from the continuing activity of the management of Unit Trusts, Open Ended Investment Companies (OEICs), Personal Equity Plans and Individual Savings Accounts

### **1.3 Interest receivable**

Interest receivable is credited to the profit and loss account when received

### **1.4 Cash Flows**

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published financial statements

### **1.5 Pensions**

The majority of the employees of the company are members of the Group contributory defined benefit scheme providing benefits on a final pensionable salary basis. Assets of the scheme are held in an independent trustee administered fund (Resolution Group Pension Scheme). Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives. In accordance with FRS17 the regular cost is attributed to individual years using the attained age method. Variations in pension cost which are identified as a result of actuarial valuations, are amortised over the expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet. A number of employees are members of the Group defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

### **1.6 Stock of units**

Stock of units (and shares in OEIC) are valued at the lower of cost and net realisable value

### **1.7 Deferred Taxation**

The charge for taxation is based on profit for the year and takes into account taxation deferred due to timing differences in the treatment of certain items for taxation and accounting purposes

**RESOLUTION FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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## 2 OPERATING PROFIT

Operating profit is stated after charging

	<u>Note</u>	<u>2007</u> £000	<u>2006</u> £000
Auditors' Remuneration audit		37	35
Staff Costs	3	<u>6,705</u>	<u>4,990</u>

The Company had recharged costs of £11,884,269 (2005 £9,817,308) from Resolution Investment Services Limited, a fellow group undertaking

Non audit fee disclosure is contained in the Resolution Plc Group accounts in accordance with Regulation 4(1)(b) set out in SI 2005/2417 and made under s390B of the Companies Act 2005

## 3 STAFF COSTS

	<u>2007</u> £000	<u>2006</u> £000
Wages and salaries	5,761	4,443
Pension costs	154	76
Social security costs	<u>790</u>	<u>471</u>
	<u>6,705</u>	<u>4,990</u>

All staff are employed by Resolution Investment Services Limited and the staff costs are recharged on the basis of the duties performed for Resolution Fund Managers Limited

The average number of staff was 118 (2006 101)

## 4. DIRECTORS' REMUNERATION

D O'Neil, M Biggs, I Paterson Brown, B Meehan & J Newman are not members of the defined benefit pension scheme

The aggregate emoluments of the Directors are detailed in full below

	<u>2007</u> £000	<u>2006</u> £000
Emoluments	<u>680</u>	<u>470</u>
	<u>2007</u> No	<u>2006</u> No
Members of defined benefit pension scheme	<u>3</u>	<u>4</u>

**RESOLUTION FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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**4. DIRECTORS' REMUNERATION (CONT'D)**

The amounts in respect of the highest paid director are as follows

	<u>2007</u> £000	<u>2006</u> £000
Emoluments	<u>295</u>	<u>225</u>
Total accrued pension at 31 December	<u>10</u>	<u>4</u>

**5. TAXATION**

a) Analysis of tax charge in the period

	<u>2007</u> £000	<u>2006</u> £000
Current Tax		
UK Corporation tax on profits for the period	2,449	1,758
Adjustments in respect of prior periods	<u>20</u>	<u>(5)</u>
Total current tax (note 5b)	<u>2,469</u>	<u>1,753</u>
Deferred Tax ( see note 8)		
Origination and reversal of timing difference	9	13
Change in tax rates/bases	<u>2</u>	<u>0</u>
Taxation on ordinary profit	<u>2,480</u>	<u>1,766</u>

b) Factors affecting tax charge for the period

Profit on ordinary activities before taxation	<u>7,873</u>	<u>5,716</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	2,361	1,715
Effects of		
Expenses not deductible for corporation tax	97	56
Capital allowances in excess of depreciation	(9)	(13)
Adjustment in respect of prior period	<u>20</u>	<u>(5)</u>
Current tax charge for period	<u>2,469</u>	<u>1,753</u>

**RESOLUTION FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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**6. INTANGIBLE ASSETS**

Cost	£000
At 1 January 2007	400
Acquired during the year	
At 31 December 2007	<u>400</u>
Amortisation	
At 1 January 2007	234
Provided during the year	<u>80</u>
At 31 December 2007	<u>314</u>
Net Book Value	
At 31 December 2007	<u>86</u>
At 1 January 2007	<u>166</u>

The intangible asset is in respect of the purchase price to transfer the fund management of Britannic Managed Trust, an authorised unit trust, from Britannic Unit Trust Managers Limited on 31 January 2004. This is being written off in equal annual instalments over its estimated economic life of 5 years.

**7. DEBTORS**

	<u>2007</u>	<u>2006</u>
	£000	£000
Trade debtors	51,063	25,424
Cancellation debtors	7,441	1,283
Other debtors	610	361
	<u>59,114</u>	<u>27,068</u>

**8. DEFERRED TAX**

	Capital Allowances Timing difference £000
At 1 January 2007	37
Restatement of Closing at 28%	(2)
Movement in disallowed provisions during year	<u>(9)</u>
At 31 December 2007	<u>26</u>

In the 2007 Budget it was announced that the rate of Corporation Tax will decrease from 30% to 28% from April 2008.

**RESOLUTION FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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**9. CREDITORS**

Amounts falling due within one year

	<u>2007</u>	<u>2006</u>
	£000	£000
Trade creditors	73,374	26,779
Amount due to fellow group undertaking	5,065	4,502
Other creditors	1,635	1,231
Corporation tax payable	787	753
	<u>80,861</u>	<u>33,265</u>

**10. RISK MANAGEMENT**

The Resolution Risk Management Framework sets out the high level arrangements for risk management, control and assurance within Resolution plc. It is designed to provide a structured approach for identifying, assessing, controlling and monitoring financial and non financial risk within Resolution plc.

Our immediate parent undertaking, Resolution Asset Management Limited, has set up a Risk Committee comprising the Executive Directors which meets monthly with the CEO as Chairman of the Committee. The Committee's remit covers operational and strategic risk. In addition it has taken responsibility for review of business continuity, insurance and counterparty risk reporting. The Committee has discussed and analysed throughout 2007 the risks facing the business, based on the potential impact and the perceived likelihood of occurrence.

The Company will strive to manage and mitigate the principal risks facing the organisation and is committed to maintaining a strongly compliant culture. The Company also believes it is critical to its success to accept a degree of business risk in a conscious and managed manner that does not threaten its compliant culture.

The Company's activities expose it to a variety of financial risks including certain aspects of market risk, credit risk and liquidity risk.

*Market risk*

The Company holds units/shares in unit trusts and OEICS for subsequent sale and accordingly is exposed to fluctuations in the market value of these units. The company monitors the levels of these investments and ensures they are kept at a reasonable level.

*Credit risk*

Credit risk is the risk of loss resulting from the failure of a counterparty to perform its financial obligations or to perform them in a timely fashion. The Company holds no significant concentrations of credit risk, and cash is held with FSA regulated banks. A high proportion of the debtors are in relation to sales to FSA regulated group companies. The amount disclosed in the balance sheet in respect of financial assets represents the Company's maximum exposure to credit risk.

**RESOLUTION FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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**10. RISK MANAGEMENT (CONTINUED)**

*Liquidity risk*

Liquidity risk is defined as failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Company has an exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short term cash flow requirements. The Company's policy is to maintain sufficient cash deposits to meet obligations at all times. A high proportion of the creditors are in relation to repurchases from FSA regulated group companies.

**11 CALLED UP SHARE CAPITAL**

The authorised and issued share capital of the company at 31 December 2007 and 31 December 2006 consists of

	<u>Authorised Number</u>	<u>Number</u>	<u>£000</u>
		<u>Issued and fully paid</u>	
Ordinary shares of £1 each	<u>5,000,000</u>	<u>1,307,600</u>	<u>1,308</u>

**12. PROFIT AND LOSS ACCOUNT**

	<u>2007 £000</u>	<u>2006 £000</u>
Balance at 1 January	8,400	4,450
Profit for year	5,393	3,950
Dividend paid	<u>(5,400)</u>	
Balance at 31 December	<u>8,393</u>	<u>8,400</u>

**13. SHARE PREMIUM**

	<u>2007 £000</u>	<u>2006 £000</u>
Balance as at 31 December	<u>520</u>	<u>520</u>

**RESOLUTION FUND MANAGERS LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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**14. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>2007</u> £000	<u>2006</u> £000
Shareholders' funds at 1 January	10,228	6,278
Profit for the financial year	5,393	3,950
Dividend paid	<u>(5,400)</u>	<u></u>
Shareholders' funds at 31 December	<u>10,221</u>	<u>10,228</u>

**15. PENSION COMMITMENTS**

The majority of employees of Resolution Investment Services Limited are members of the Resolution Group Pension Scheme (RGPS). The joint sponsoring employers of RGPS are Resolution Plc and Resolution Management Services. The RGPS is of the defined benefit type with assets held in a trustee administered fund. An independent qualified actuary carries out valuations of the RGPS at least every three years and the contributions to the scheme are paid in accordance with his recommendations. The Company will account for contributions to the scheme as if it were a defined contribution scheme as it is unable to identify its share of the assets and liabilities on a consistent and reasonable basis. Full disclosures for the scheme are contained in the Resolution Plc Group financial statements.

**16. TRANSACTIONS WITH DIRECTORS AND THEIR RELATED PARTIES**

The details in respect of P Thomson (resigned 7 March 2007), M Biggs, B Meehan and J Newman are disclosed in the accounts of Resolution plc.

	<u>2007</u> £000	<u>2006</u> £000
Investments and life products held by two (2006 two) Directors at 31 December	<u>441</u>	<u>461</u>
Contributions paid by two (2006 two) Directors towards investments and life products during the year	<u>8</u>	<u>27</u>

All investments are made on an arms length basis.

**RESOLUTION FUND MANAGERS LIMITED  
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2007**

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## **17. OTHER RELATED PARTY DISCLOSURES**

The Company's income is solely derived from its activities as a manager for Resolution Unit Trusts and OEICs and may on a strict interpretation be deemed to be a "related party" to these Unit Trusts and OEICs within the definition of Financial Reporting Standard 8 Related Party Disclosures. The aggregate total transactions with Citibank International plc as Trustee of the Resolution Unit Trusts were £4,245,751,691 (2006 £4,178,751,506) for unit creations and £2,736,295,198 (2006 £1,852,460,988) for liquidations. The balance due at 31 December 2007 to Citibank International plc was £38,822,388 (2006 £20,988,451). The aggregate total transactions with RBS Trustee and Depositary Services as Trustee of the Resolution OEICs were £625,354,564 (2006 nil) for unit creations and £2,385,704,787 (2006 nil) for liquidations. The balance due at 31 December 2007 from RBS Trustee and Depositary Services was £259,315 (2006 nil). The remaining balances of trade debtors and trade creditors relate to unit sales and repurchases.

Under Financial Reporting Standard 8, companies which are wholly owned subsidiaries of a parent whose consolidated financial statements in which the subsidiaries' results are included are publicly available, are granted exemption from disclosing intra group transactions. The company is such a subsidiary undertaking and accordingly has not disclosed such transactions.

## **18. ULTIMATE PARENT UNDERTAKING**

The Company's immediate parent undertaking is Resolution Asset Management Limited, which is a body incorporated in Scotland. The Company's ultimate parent undertaking is Resolution plc, which is a body registered in England. These financial statements have been included in the consolidated financial statements of Resolution plc. A copy of the financial statements of Resolution plc is available from

Resolution plc  
Juxon House  
100 St Paul's Churchyard  
London  
EC4M 8BU